Luxembourg, February 4, 2020

Response to the IOSCO Consultation CR05/2015 December 2019 on "Conflicts of Interest and Associated Conduct Risks during the Debt Capital Raising Process"

Introduction

The Association of the Luxembourg Fund Industry (ALFI) represents the face and voice of the Luxembourg asset management and investment fund community. The Association is committed to the development of the Luxembourg fund industry by striving to create new business opportunities, and through the exchange of information and knowledge.

Created in 1988, the Association today represents over 1,500 Luxembourg domiciled investment funds, asset management companies and a wide range of business that serve the sector. These include depositary banks, fund administrators, transfer agents, distributors, legal firms, consultants, tax advisory firms, auditors and accountants, specialised IT and communication companies. Luxembourg is the largest fund domicile in Europe and a worldwide leader in cross-border distribution of funds. Luxembourg domiciled investment funds are distributed in more than 70 countries around the world.

We thank the Board of the International Organization of Securities Commissions (IOSCO) for the opportunity to participate in this consultation on Conflicts of Interest and Associated Conduct Risks during the Debt Capital Raising Process.

Response to the consultation

Question 1: Do you agree that there are conflicts of interest in the debt capital raising process and, if so, what are they? If there are such conflicts, is the Guidance set out in Chapter 5 of this Consultation Report appropriate to address the potential conflicts of interest and associated conduct risks arising in the debt capital raising process?

Yes, as mentioned in the preamble of the IOSCO report conflicts of interest in debt capital raising may arise. However, at this stage, we have focused only on conflicts of interest that may arise in equity capital raising. The main conflicts relate to the roles of intermediaries in the equity capital raising process. In Luxembourg, such conflicts are addressed through existing regulations.

We are of the opinion that the Guidance in Chapter 5 addresses properly the potential conflicts and associated conduct risks.

Question 2: IOSCO is monitoring the digital transformation of the financial industry and has created a dedicated working group to study the integration of new technologies, such as distributed ledgers and blockchain, in the traditional financial process. IOSCO is aware of cases involving debt issued on blockchain platforms and has undertaken a study of the risks and benefits of this technology in the capital raising process.

In your opinion, can distributed ledger/blockchain technology contribute to reducing conflicts of interest in debt capital raising? If so, please explain how.

Due to the features of Blockchain per se (decentralized, no intermediaries, etc.) the technology reduces the risks of conflicts of interest as it is more transparent, depends of multiple data points for transaction validation and limits human intervention, while also increasing processing efficiency. In order to ensure that the full benefits of blockchain technology are realised, it has been noted that a global ecosystem is needed, notably in terms of AML/KYC. To this end, some players think that the Luxembourg central administrative (more precisely Transfer Agent) approach is well regarded and avoids that "tokens" fall in "bad hands". The use of

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a Transfer Agent model may increase the transparency and investor trust in such an ecosystem.

Some practitioners noted that due to the instantaneity of the transaction settlement, it is more difficult to spot (and repair) a transaction that had gone wrong (misrepresentation or other type of fails).

Question 3: What do you consider the benefits and risks of using the technology in this way?

The benefits (provided the ecosystem is properly in place) could include increased liquidity for such transactions, the ability to issue fractions of an issuance, as well as the enhancement of the tradability of the debt instrument. Furthermore, the processing of such transactions will involve immediate validation, including confirmation of the availability of the debt issuance, eliminating certain current activities such as the reconciliation of the outstanding and available debt. These benefits should result in reduced costs for the investors.

The main drawback lies in the current lack of the availability of the ecosystem to support such transactions and the assurance required on the dependability of the infrastructure (i.e. to ensure that the system functions as anticipated and provides the necessary safeguards).